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POLICY BRIEF

BOOST WORKING FAMILIES' INCOMES: ESTABLISH OR IMPROVE STATE TAX CREDITS



THE PROBLEM

The spread of COVID-19 has unleashed a health and economic crisis of unprecedented scope. Women, and especially women of color, have borne the brunt of the economic impact. Though the overall unemployment rate has dropped since the beginning of the pandemic, hundreds of thousands of women have been pushed out of the workforce, and unemployment rates for Black women and Latinas are especially high. [Millions of women and families](#) have lost employment income, face food insufficiency, and are behind on their rent or mortgage payments since the onset of the pandemic. And unfortunately, the economic outlook for women and families in 2021 continues to be dire. Boosting working women's incomes will be critically important to ensure their well-being, enable them to meet basic needs, and stabilize the economy. Refundable tax credits—or tax credits that provide families a refund if the amount of the credit exceeds their tax liability—are [proven to help families weather recessions](#) like the one we are currently experiencing and are key to rebuilding an economy that works for everyone.

THE SOLUTION

In far too many states, low- and middle-income families [pay a greater share of their income](#) in taxes than wealthy families. In fact, [most state tax codes exacerbate economic inequality](#) for communities of color. Even outside of an economic downturn, tax credits can help keep millions of families out of poverty and alleviate regressive state tax codes. But during recessions, refundable state tax credits can reduce the tax burden some families face and put much-needed cash back in families' hands.

BASIC ELEMENTS OF THE SOLUTION

- Build upon the success of federal family tax credits by offering a state Earned Income Tax Credit (EITC), Child and Dependent Care Tax Credit (CDCTC), and Child Tax Credit (CTC). Ensure these credits are fully refundable so that low-income families with little or no state income tax liability can take full advantage of the credit.
- Base a state EITC on a percentage of the federal EITC and provide additional help for low-income, childless workers who receive a much smaller federal EITC than workers with children. In addition, allow families who file their taxes using Individual Tax Identification Numbers (ITINs) to claim EITCs.
- When designing or improving a state CDCTC, offer a generous percentage of the federal CDCTC but allow families to claim state credits even if their incomes were too low to benefit from the federal credit.
- Ensure a state CTC is refundable from the first dollar of earnings and allow workers to claim the CTC for children with ITINs. This will help more families who cannot access the federal CTC benefit from a state CTC.

- Offer an additional Young Child Tax Credit to provide more assistance to families with young children who often receive smaller child tax credit amounts.

TALKING POINTS ON THE SOLUTION

- State tax credits, especially those that provide a refund, can [increase family incomes](#)—supporting work and improving family well-being, children’s health, and future educational and employment outcomes.
- Tax credits also [boost the economy](#) (especially during a recession) by putting money in the pockets of working families, who are likely to spend it in their local economy.
- [Twenty-eight states and the District of Columbia](#) provide EITCs (which are refundable in all but six states). [Two states](#) allow tax filers with ITINs to claim their EITC.
- State CDCTCs can provide some help to families struggling to pay for the child care they need to work. [More than half of states](#) offer some type of child and dependent care tax provision (a credit or a deduction), and 14 states, from Nebraska to New York, offer refundable credits.
- While few states offer them, state-level CTCs can [help reduce child poverty](#).
- Families with infants and toddlers face high costs associated with their care. An additional Young Child Tax Credit would help these families meet the higher costs of raising very young children.